

Chapter 23

Accrued and Other Liabilities

23-1. General

"Accrued and Other Liabilities" include liabilities not previously discussed. Categories of liabilities in this chapter include payroll and benefits; actuarial liabilities; prior liens outstanding on accrued collateral; contingent liabilities; capital leases payable; property furnished by others; civilian severance pay; and the Homeowner's Assistance Program.

23-2. Payroll and benefits

a. Make reasonable estimates (accruals) of the costs of services performed by military and civilian employees when a pay period does not coincide with the end of an accounting period. Record accruals in the applicable accounting period based on journal vouchers with supporting documentation. Computer generated vouchers may be used for this purpose. Authorized accounting officials must sign these vouchers. They must clearly show the calculations and data used to compute the amount of the liability. Remove these accruals from the accounts only when the related pay is disbursed and recorded.

b. Record amounts due for annuities, adjudicated claims, and benefit payments as of the end of the period. Record such amounts based on journal vouchers signed by authorized accounting officials. The supporting documentation must clearly show the basis for the amounts recorded. Do not reverse the accrual for the U.S. Army's share of fringe benefits computed as a part of the pay computation process.

c. A compensated absence is an employee absence for vacation or illness for which the employee is paid. When employees accrue rights to take leave with pay, record the liability following rules prescribed in Chapter 11.

d. Do not record accrued sick leave unless there is a need to recover full operating costs or a management requirement.

e. Adjust the liabilities for annual leave to reflect all pay increases. Adjust for unused leave balances at least annually for financial statement purposes.

23-3. Actuarial liabilities

a. The organization responsible for accounting for programs that provide annuity benefits will recognize a liability for the actuarial present value of accumulated benefits. These are benefits earned or accrued as of the benefit information date. This is the date on which benefit information is presented. Payment will not be made until a later date.

b. Accumulated benefits for annuity programs include benefits expected to be paid to the following:

- (1) Persons who have not met the program's conditions but will receive benefits in the future.
- (2) Persons who have met enough of the program's conditions to be considered probable recipients of future benefits.

(3) The survivors of both groups, as applicable.

c. Record the amounts actually funded.

d. The organization will maintain appropriate records of any unfunded portions to provide appropriate footnote disclosure in the financial statements when necessary.

e. Determine the liability for claims incurred (both reported and unreported) by use of accepted actuarial principles. Record the estimated amount to be recovered as a receivable if existing legislation requires recovery of payments to participants. Clearly show the sources of expected repayments.

23-4. Prior liens outstanding on accrued collateral

Record the value of liens approved and accepted as claims for assets acquired through loan defaults. Include an estimated accrual of losses resulting from loan guarantees and commitments in financial statements that show an asset has been impaired or a liability has been incurred.

23-5. Contingent liabilities

a. Contingencies are existing conditions, situations, or circumstances involving uncertainty about future liabilities. These uncertainties will be resolved in the future when one or more events either occurs or fails to occur. (Examples are: 1. COE - % of contract, 2. closed "accounts" potential future liabilities, 3. unfunded payroll liabilities, 4. litigations or contract appeals, 5. bid protests, and 6. environmental restoration).

b. The likelihood of the future event confirming the loss or impairment of an asset or the incurring of a liability can range from probable to remote. The terms probable, reasonably possible, and remote, identify three areas within that range as follows:

(1) Probable--the future event is likely to occur.

(2) Reasonably possible--the chance of the future event occurring is more than remote but less than likely.

(3) Remote--the chance of the future event occurring is slight.

c. Accrual and disclosure of contingencies vary depending on their probability of occurrence. Estimated losses will be recorded in the installation accounting system and reported in financial statements as follows:

(1) Information available before financial statements are issued that show a liability probably has been incurred.

(2) The amount can be reasonably estimated.

d. Events may occur after the date of the financial statements but before the statements are issued that cause an asset to be impaired or a liability incurred. Show the nature of an accrual if the financial statements would be misleading if the disclosure is not made. Base the decision to disclose on materiality of the loss contingency and its possible

impact on the financial statements and U.S. Army operations.

e. The estimated loss associated with probable contingencies may be a specific amount or a range of amounts. If a reasonable estimate can be determined an amount will be recorded for the loss. Record an estimated amount within a range that appears, at the time, to be a better estimate. Other-wise record the minimum amount in the range. This should ensure that the amount recorded for the loss does not exceed the ultimate loss.

f. Consult respective legal counsels to decide whether a contingency exists and the amount to be recorded for the contingent liability.

g. Maintain accountability until settlement occurs when claims against the U.S. Army are settled by another U.S. Government agency based on governing statutes or regulations.

h. Commit funds related to contingencies. Cancel unobligated commitments established to meet contractual contingencies when the appropriation expires for obligation purposes.

i. Obligate contingencies according to Chapter 9. Prepare appropriate reports when recording a liability that will result in a violation of fund availability.

23-6. Capital leases payable

a. Capital lease agreements within the U.S. Army requires U.S. Congressional authorizing legislation. Accordingly, agreements to lease real estate and personal property are limited to current year operating requirements.

b. Account for the authorization to enter into capital lease agreements as the acquisition of an asset and the incurrence of a liability. Record the asset at its fair market value, with a like amount recorded in the Capital Leases Payable general ledger account.

c. See Chapter 19 to decide whether a lease is a capital lease or an operating lease.

23-7. Property furnished by others

Record the total liability for property under the U.S. Army activity's control that will be returned to the source from which acquired in reasonably original condition. This action ensures the recognition of an outstanding liability.

23-8. Civilian severance pay

Accrue the unfunded liability for payments due to former U.S. civilian employees (or their survivors) who were involuntarily separated. Include foreign national separation pay required pursuant to agreements negotiated with the respective foreign countries. Such amounts are to be transferred by SF 1081 with the disbursement of your funds and a credit to 97R8165.**** (substitute the appropriate DoD limit/sub-head from DFAS-IN Manual 37-100-FY). FAX the SF 1081 to: DFAS-Indianapolis Center, ATTN: DFAS-IN/YA, 8899 East 56th Street, Indianapolis, Indiana 46249-1410.